

Internal Revenue Service

Department of the Treasury

District  
Director

Person to Contact:

Telephone Number:

Refer Reply to:

Date:

Employer Identification Number:

NOV 9 1964

Gentlemen:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

The information submitted discloses that you were incorporated under the non-profit corporation laws of the State of [REDACTED] on [REDACTED].

Your Corporation's purpose is stated in Article SECOND B. of your Articles of Incorporation. That provision reads as follows:

"B. The specific and primary purpose is to operate a non-profit foundation to provide a scholarship fund for young women (17-23) throughout [REDACTED]. And, to foster and assist the development of more scholarship funds for young women."

Your corporation's activities are summarized in Form 1023 Part III B. That summary reads, in part, as follows:

- "1. Monthly meetings of the Board of Directors.
2. Monthly meetings of Scholarship Board.
3. Contacts both personal and by mail to corporations and individuals for solicitation of funds
4. Contacts with civic organizations and schools to distribute information about the availability of scholarship."

In an attachment to Form 1023 labeled "Eshibit A" you outline the factors used in selecting the recipients of your scholarship grants. That outline reads, in part, as follows:

- |                                 |  |
|---------------------------------|--|
| "(1) U.S. Citizen               | (2) [REDACTED] resident  |
| (3) Female                      | (4) Unmarried. . . .   |
| (5) Age 17 to 23 inclusive. . . | (6) Able to maintain a<br>a G.P.A. . . .<br>"Passing" or better. |

Scholarship amounts will vary from \$250.00 to \$5,000.00. The Scholarship Board will consider the following in addition to academic achievements.

- (1) Community service and contribution.
- (2) Interview with Scholarship Board.
- (3) Talents . . .
- (3) "Oral presentation."

In a letter dated [REDACTED] we requested additional information about your operation so we could determine your proper tax exempt status. We received your written response to that request on [REDACTED].

We asked you to state the amount of weight that would be placed on each of the following scholarship selection factors: (a) academic achievements, (b) community service and contribution, (c) interview, (d) public demeanor and appearance and (e) talent. You responded as follows:

"20% each category".

We asked you to explain what you meant by the term "academic achievements". You responded as follows:

"Grade Point Average".

We asked you to explain what you meant by "public demeanor and appearance". You responded, in part, as follows:

"The term "public demeanor and appearance" are self explanatory".

We asked if you would sponsor a beauty pageant or a similar event. You responded as follows: "No".

We asked if you would sponsor any event where your scholarship candidates or recipients would appear. You responded as follows: "No".

In a letter dated [REDACTED] we requested additional clarification. You responded to that request in a letter dated [REDACTED].

We asked for a statement of receipts and expenditures for the year ending [REDACTED]. The statement submitted includes the following expenditures:

"Production shows  
Social Administrative  
Awards  
Wardrobe/costumes

\$ [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

We asked for a statement of receipts and expenditures for the year ending [REDACTED]. The statement submitted includes the following expenditure:

"Production shows

\$ [REDACTED]

We asked if any of the recipients of your scholarship awards in [REDACTED] and in [REDACTED] had participated in a beauty pageant or a similar event in either of those years. You did not respond to that request.

Section 501(c) of the Internal Revenue Code of 1954 describes certain organizations exempt from income tax under section 501(a) and reads, in part, as follows:

"(3) Corporations, and any community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary or educational purposes, or to foster national or international amateur sports competition, (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, except as otherwise provided in subsection (h), and which does not participate in, or intervene in, (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office."

To qualify for exemption under section 501(c)(3), an organization has the burden of showing that it is organized and operated exclusively for the purposes of that Code Section. An organization applying for exemption has the burden of proof to show that it satisfies the requirements for exemption.

For example, in *Bubbling Well Church of Universal Love, Inc., V. Commissioner*, 74 T.C. 531 (1980), the court held that a religious organization was not entitled to exemption under section 501(c)(3). The organization did not fully disclose the nature of its operation. It did not show that it was organized and operated exclusively for religious purposes.

In order to qualify for exemption under section 501(c)(3), an organization must show that its activities serve one or more of the purposes of that Code Section. Scholarships may serve an educational purpose or a charitable purpose.

For example, Rev. Rul. 66-103, 1966-1 C.B. 134 held that an organization that awarded scholarship grants served a charitable purpose and was entitled to exemption under Section 501(c)(3). The grant recipients were selected (in part) on the basis of need. Rev. Rul. 69-257, 1969-1 C.B. 151 held that an organization that awarded scholarship grants served an educational purpose and was selected on the basis of academic achievement.

An organization may not be exempt under section 501(c)(3) if it is

primarily engaged in awarding "scholarship" grants that do not serve an exempt purpose.

For example, in *Miss Georgia Scholarship Fund, Inc. V Commissioner* 72 T.C. 267 (1979) the court held that an organization that awarded "Scholarships" to beauty pageant contestants was not entitled to exemption under section 501(c)(3). The "Scholarships" in question were awarded in consideration of certain contractual obligations. They did not serve an exempt purpose.

The information submitted by you concerning your operation has been vague and contradictory. You have stated that you do not sponsor a beauty pageant or any event where your scholarship recipients appear. However, your statements of receipts and expenditures for [REDACTED] and for [REDACTED] show expenditures for "production shows" and for "wardrobe/costumes". These expenditures suggest that you do in fact sponsor or support such an event.

You have failed to fully disclose material aspects of your operation. We asked if any of your scholarship recipients in [REDACTED] or in [REDACTED] participated in a beauty pageant or a similar event. You did not respond to that request.

An analysis of the factors used to select your scholarship recipients suggests that those awards do not serve an educational or a charitable purpose. Need plays no role in the selection process. Academic achievement is only a minor factor. Instead such factors as appearance, public demeanor, talent, interviews and oral presentations weigh heavily. These factors are commonly used to select beauty pageant winners.

Your organization is not entitled to exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 because you have not fully disclosed the nature of your operation and because you have not shown that your activities serve one or more of the purposes of that Code Section.

You are required to file Federal income tax returns annually, with your district director.

As provided by section 6104(c) of the Internal Revenue Code of 1954 and the applicable regulations, the appropriate State officials are being notified of our determination.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed agreement Form 6018. Please note the instructions for signing on the reverse side of this form.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information to support your position

as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the office of Regional Director of Appeals or, if you request, at a mutually convenient District Office. A self-addressed envelope is enclosed.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination.

Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service".

Sincerely yours,

District Director

Enclosures:

Publication 892

Form 6018